

## European Investment Bank



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Werner Schmidt has been working on project, policy and sector advisory for more than 25 years. He joined the European Investment Bank (EIB) in 1996 and on 1st February 2021, Werner became the Head of the Joint Assistance to Support Projects in European Regions (JASPERS) and took on the leadership of the Urban & Territorial Development Department, which oversees urban and regional development (Cohesion/Just Transition) in the Projects Directorate. Prior to joining the EIB, Werner worked inter alia for the World Bank, the European Commission and the German bilateral technical assistance organization in Albania, Pakistan, Russia, the Caucasus and Central Asia. Werner studied agricultural economics in Kiel and Weihenstephan, Germany.

### Urban investment is a key to reaching climate goals

*In the decades to come, cities are projected to experience some of most severe consequences of climate change and be among the largest CO2 emitters. For a greener future, we must rethink now how we invest in urban development and innovation.*

We live in times of rapid urbanisation. Cities currently account for two-thirds of the world's energy consumption and produce over 70% of global carbon emissions. By mid-century, 2.5 billion people are expected to migrate from rural to urban areas. It is therefore crucial we act today to prioritize green, sustainable, and inclusive urban development.

If we do not act, millions of people living in cities around the world will suffer the worst consequences of climate change. Temperatures can increase twice as much in urban concrete deserts as in rural areas.<sup>1</sup> Coastal megacities, home to tens of millions of people, are threatened by rising sea levels. Supercharged storms are bringing high volumes of rainfall in a short time and pose risks for urban areas as we sadly witnessed during the recent flood in Derna, Libya.

As they are both particularly vulnerable to climate change and a major share of emissions comes from urban areas, cities are central to decisive action against the climate crisis.

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<sup>1</sup> [Climate change: Cities can be subjected to twice as much temperature increase so what can be done? | Euronews](#)

Innovative solutions found in cities have spread across the board and this trend is set to continue. Pioneering approaches to urban resilience, such as those taken by Florence, show us that a lot can be done to adapt to rising temperatures and speed up the transition to carbon neutrality. With the help of the European Investment Bank, Florence financed its smart city plan and climate strategies to improve its resilience to future climate events such as floods, redeveloped green areas, public space and roads, advanced sustainable mobility and improved energy efficiency of public buildings.

Florence is a good example of what cities can achieve with the right plan, access to finance and expertise. **But we need to do more to help cities around the world realise their climate ambitions.**

**The first step must be to address the main investment barriers that cities face.** Our research<sup>2</sup> shows that 60% of municipalities in the EU consider their investments in climate mitigation and adaptation infrastructure to be insufficient. Estimates made in preparation for the EU Mission on Smart and Climate-Neutral Cities suggest that an average European city will need to invest approximately €1 billion per 100,000 inhabitants to become carbon neutral. There is a large financing gap, and the figures quoted in different macro studies – for example the \$4.5 trillion per year estimated by the World Bank, are so huge that we really need to see solutions at scale. With the European Green Deal, the EU aims to make the European economy sustainable and inclusive. The European Investment Bank (EIB) supports this growth strategy and is one of the world’s main financiers of climate action and environmental sustainability. Last year, about 30% of all the EIB’s lending supported urban development, and of that some 60% made a significant contribution to climate action. Although in absolute terms these are big numbers - about €17.5 billion of urban lending in 2022 – our resources will not be enough to close the financing gap. We need to look for ways to attract new sources of public and private sector investment and innovative approaches to deploying capital towards climate neutrality, such through green bonds, sustainable thematic framework loan facilities, and better ways of using grant funding to leverage and incentivize.

**Next, we need to help cities when they lack the capacity to prepare complex climate action projects.** 69% of EU municipalities say they lack experts with environmental and climate assessment skills.<sup>3</sup> Much of the EIB’s work on the lending and advisory side is focused on building a suitable pipeline for financing. Cities need support to translate urban development strategies and climate action plans into tangible, bankable investments that can be implemented in a reasonable timeframe. Cities need help both to prepare projects themselves and to enable projects by providing capacity building. Instruments such as

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<sup>2</sup> [Skills shortage is delaying the green transition, EIB Municipality Survey shows](#)

<sup>3</sup> [Skills shortage is delaying the green transition, EIB Municipality Survey shows](#)

the City Climate Gap Fund, JASPERS, ELENA and the Invest-EU Advisory Hub, are good examples of such support.

**Achieving carbon neutrality, however, requires urban infrastructure improvements beyond the direct control of cities and utilities.** Electric vehicles, energy efficiency in private and commercial buildings and industrial processes, are not under the direct control of city administrations. Across Europe, it has been observed that 80-90% of the investments required for a city to attain carbon neutrality lie beyond the scope of municipal budgets. Cities, however, can leverage their planning powers and financial resources to encourage the private sector to invest in green infrastructure. This can be seen through the EU's "Smart and Climate Neutral Cities" initiative, one of five Horizon Europe research and innovation programmes for the years 2021-2027. It provides support that covers the climate transition of the entire city, not just the public sector parts under the direct control of city authorities. That means it asks cities to think about how industry will control industrial emissions, and how private individuals will transition to electric vehicles and renovate their homes to become energy efficient and ultimately carbon neutral. Cities need to understand the scale of these changes and think about how they can influence private sector behaviour and investment through their planning powers, through providing incentives, and through partnerships.

The world is currently not on track to meet the goals set out in the Paris Agreement and the United Nations' calls for an all-of-society approach to accelerate our progress.<sup>4</sup> As our window to reach our climate goals is closing, and with rapid urbanisation in many parts of the world, cities must play a leading role both in reducing emissions and in adapting to the impacts of climate change. To secure a better future for all, we must therefore address the financing and skill gaps that cities face.<sup>i</sup>

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<sup>4</sup> Implementation must accelerate to increase ambition across all fronts, taking an all-of-society approach to make progress towards the Paris Agreement goals and respond to the climate crisis, finds technical report on first global stocktake | UNFCCC